

**MCI's Stated Concerns About The Difficulty of
Procuring Its Own Licenses Are
Theoretical and Seemingly Unfounded**

23. MCI posits a host of conditions that it contends would make procuring direct licenses either problematic or prohibitively expensive. Principally, MCI contends -- without, however, providing any factual underpinning -- that SBC would place pressure on licensors not to extend licenses MCI needs and that MCI would not be able to negotiate advantageous terms.

24. The software licenses that SBC enjoys are nonexclusive. As a straightforward legal matter, each licensor would, by reason of having conferred one or more nonexclusive licenses, be able to freely license its software to one or more other communication enterprises which have (as I assume MCI will have under the 1996 Act) the right to obtain access to underlying hardware with licensed software resident therein. Indeed, the reserved right in a nonexclusive license to license others is a device for licensors to create the potential for generating further revenues for the previously licensed software.

2(...continued)

Bankruptcy Code § 265(n), (b) for Clayton Act acquisition of asset purposes, (c) for capital gains purposes under the Internal Revenue Code, and for federal criminal law enactments, such as the Theft of Goods and Economic Espionage provisions of Title 18 of the U.S. Code.

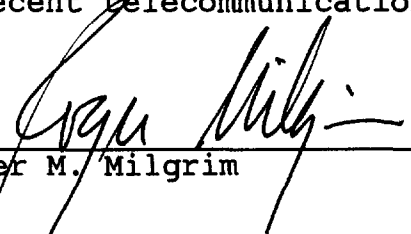
25. Moreover, Additional licensing revenues from MCI and others would, in most cases, be incremental "new" revenues and as such could involve potential "profit" to the licensor involving relatively small added effort by these licensors.

26. MCI's suggesting that it could not negotiate favorable terms with SBC's current software licensors is, in my opinion, at variance with the primordial economic fact that it is the business of these licensors to enhance revenues through licensing the software as often as is possible and prudent to financially responsible, commercially-ethical telecommunications companies. When that company is MCI, a domestic and international telecommunications giant, which quite likely already has established commercial arrangements with many (if not all) of these software licensors, MCI's assertion that it would be either difficult or more expensive for it to become licensed on terms and conditions as favorable as those applicable to other similarly situated companies is also at variance with my experience in the software licensing field.

27. MCI's insistence that SBC negotiate the various software licenses for MCI's benefit in my mind raises a host of problems. First, how could SBC know all the facts -- such as projected number of subscribers and

proposed territorial use -- that could be pertinent to a software license to MCI, without intimate knowledge of MCI's competitively sensitive information? And, even assuming that MCI were willing to share such information with SBC in a way that would not place competitive strictures on SBC, how practical is it for SBC to serve as the licensing agent-fiduciary of MCI, now its competitor? How realistic is it to believe that the terms SBC would negotiate on MCI's behalf would soon, or ever, be accepted by MCI? I cannot, in my experience, recollect a competitor (SBC) so serving as a licensing agent of another competitor (MCI) or that other competitor being content to have a competitor so serve.

28. For completeness I note that, although I myself have done no legal work for SBC during at least the past several years, my law firm has served as transactional counsel to SBC or affiliates in recent telecommunications transactions.


Roger M. Milgrim

Sworn to before me this
14th day of April 1997.


Notary Public

EVA M. GIBSON
NOTARY PUBLIC, State of New York
No. 0104651304
Qualified in Nassau County
Commission Expires December 31, 1997

APPENDIX A

BIOGRAPHICAL INFORMATION

Roger M. Milgrim, partner, Paul, Hastings, Janofsky & Walker LLP, 399 Park Avenue, New York, New York 10022-4697. A.B., University of Pennsylvania (1958) (cum laude, History). L.L.B., New York University School of Law (1961) (Root-Tilden Scholar, Associate Editor Law Review); LL.M. (comparative law), N.Y.U. School of Law (1962) (Ford Foundation Fellow); University of Paris School of Law (1962-1963) (Fulbright Scholar and Ford Foundation Fellow). Author: Milgrim on Trade Secrets (Matthew Bender & Co. 1968, currently supplemented three times per year); Milgrim on Licensing (Matthew Bender & Co. 1990, annually supplemented). Adjunct Professor of Law, New York University School of Law (1975 to present). Chairman, Trade Secret Committee, Patent, Trademark and Copyright Section of the ABA (1973-1974); Chairman, Patent and Trademark Committee, Antitrust Section, New York State Bar Association (1981 - 1989). Director, N.Y.U. School of Law Alumni (1972-1976; Board of Visitors, 1975-1976); Trustee, The Brooklyn Hospital (1976-1991); Trustee, College of Wooster (1994-1997).

APPENDIX B

9-373 KINDRED INTELLECTUAL PROP. § 9.06

§ 9.06 **Tabular Comparison of Patents, Copyrights,
Trade Secrets & Trademarks**

[Chart starts on next page]

Source of Law

Patents and Copyrights

U.S.: The Patent Act of 1952, 35 U.S.C. §§ 1-293 and Copyright Act of 1976, 17 U.S.C. §§ 1-810 both flow from explicit provisions in U.S. Const. art. I, § 8, cl. 8. Essentially, federal courts have sole jurisdiction as to validity, but not as to licenses. Practically all industrial nations have an extensive statutory patent scheme.

Trade Secrets

State Law: Federal courts have diversity or pendent claim jurisdiction. See *Restatement of Torts* § 757, comment b (1939). Almost universally adopted. See § 1.01, *supra*. Issue of federal patent preemption, raised in *Sears* and *Lear* answered definitively in favor of coexistence of trade secret law. *Kewanee Oil Co. v. Bicron Corp.* 416 U.S. 470, 94 S. Ct. 1879, 40 L. Ed. 2d 315, 181 U.S.P.Q. 673 (1974).

Trademarks

U.S.: Flows from Congress's general power to regulate commerce with "foreign nations, and among the several states, and with the Indian tribes." U.S. Const. art. I, § 8, cl. 3. Congress held to have no power under the patent and copyright clause of the Constitution to regulate trademarks. U.S. Const. art. I, § 8, cl. 8; *Trade-Mark Cases*, 100 U.S. 82 (1879). The current federal trademark statute, the Lanham Act (15 U.S.C. §§ 1051-1127), is thus limited to regulation of trademarks used in foreign or interstate commerce. 15 U.S.C. §§ 1051, 1127.

Patents and Copyrights

Trade Secrets

Trademarks

State Statutory Law: Most states have enacted statutes regulating trademarks used in intrastate commerce. One group of state statutes provides for registration of such marks and many are patterned upon the Model State Trademark Bill prepared by the United States Trademark Association. See, e.g., United States Trademark Association, *State Trademark Statutes* (1966). See, e.g., N.Y. Gen. Bus. §§ 360-368-e (McKinney 1968). A second group of state statutes deals with deceptive trade practices and impact upon the use of trademarks in intrastate commerce. A number of deceptive trade practices statutes are modeled upon the Uniform Deceptive Trade Practices Act. See Uniform Deceptive Trade Practices Act (U.L.A.) at 35-90 (1966 revision).

Other statutes treat trademarks in the context of such disparate subjects as false advertising; weights, measures, and labeling; food, drugs, and cosmetics; insecticides, fungicides, and rodenticides. See, e.g., N.Y. Gen. Bus. §§ 350-350-e (McKinney 1968) (false advertising); N.M. Stat. Ann. 76-4-4 (1978) (misbranding of pesticides); Ill. Ann. Stat. ch. 56 1/2, § 503.10 (Smith-Hurd—Supp. 1979)

Patents and Copyrights

Trade Secrets

Trademarks

(forging, counterfeiting, or falsely representing cosmetics, food, or drug marks); Cal. Penal Code § 537e (West 1970) (purchase, sale or receipt of mechanical or electrical device where manufacturer's label identification mark removed or defaced).

State trademark statutes are not preempted by Lanham Act unless such statutes negate basic rights and purposes of the federal act. *Golden Door, Inc. v. Odisho*, 646 F.2d 347 (9th Cir. 1980); *Marinello v. Shell Oil Co.*, 511 F.2d 853 (3d Cir. 1975), and generally are not preempted by operation of the federal patent and copyright laws, see, e.g., *Boston Pro. Hockey Ass'n v. Dallas Corp. & E. Mfg., Inc.*, 510 F.2d 1004 (5th Cir.), *cert. denied*, 423 U.S. 868 (1975); *Burger King, Inc. v. Hoots*, 403 F.2d 904, 159 U.S.P.Q. 706 (7th Cir. 1968); *Frederick Warne & Co. v. Book Sales Inc.*, 481 F. Supp. 1191 (S.D.N.Y. 1979), and are generally held not preempted by operation of the federal patent and copyright laws. See, e.g., *Dave Grossman Designs, Inc. v. Bortin*, 347 F. Supp. 1150 (N.D. Ill. 1972).

Patents and Copyrights

Trade Secrets

Trademarks

State Common Law: State courts (and federal courts on diversity or pendent claim) have inherent power to regulate trademarks used in intrastate commerce. Power to regulate trademarks derives from judicial "sense of basic fairness." *Jewel Cos. v. Westhall Co.*, 413 F. Supp. 994, 198 U.S.P.Q. 432 (N.D. Ohio 1976), *aff'd per curiam*, 575 F.2d 1176 (6th Cir. 1978), and view of trademarks as protectable "property." *Trade-Mark Cases, supra*. State common-law trademark protection not preempted by Lanham Act unless such protection negates basic rights and purposes of the federal act.

Coverage

Patents and Copyrights

Patents: Products, substances, processes, micro-organisms. *Diamond v. Chakrabarty*, 447 U.S. 303, 100 S. Ct. 2204, 65 L. Ed. 2d 115, 206 U.S.P.Q. 193 (1980). See § 9.02[4] *supra*.

Copyrights: Literary works, compilations, derivative works. 17 U.S.C. §§ 102, 103 and see their definitions, *id.* § 101. Ideas are not protected, only form of expression. *Id.* § 102(b). See generally § 9.03[4] *supra*.

Trade Secrets

Formulae, processes, intricate products, computer software, plans, designs and specifications, R&D information, business information. See § 1.09 *supra*. Trade secret law protects underlying ideas. *M. Bryce & Assoc. v. Gladstone*, 107 Wis. 2d 241, 319 N.W.2d 907, 215 U.S.P.Q. 81, CCH Copyright L. Dec. ¶ 25,418, p. 17,409 (Cl. App.), *cert. denied*, 459 U.S. 944 (1982); *Computer Assocs. v. Altai*, 982 F.2d 693 (2d Cir. 1992).

Trademarks

Term "trademark" broadly defined to encompass symbols which identify source of origin of goods or services:

Trademark —any word, name, symbol, or device or any combination thereof adopted and used by manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others (considered to include nonfunctional product shapes, trade dress, and package configurations).

TRADE SECRETS

9-378

9-379

Patents and Copyrights

Trade Secrets

Trademarks

Service mark —mark used in the sale or advertising of services to identify services of one person and distinguish them from the services of others.

Certification mark —mark used upon or in connection with products or services of one or more persons other than mark owner to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of goods or services.

Collective mark —used by members of a cooperative, or association or other collective group or organization to indicate membership.

Trade name —individual names, surnames, firm names, and trade names used by manufacturers, industrialists, agriculturalists, and others to identify businesses or occupations.

See generally, 15 U.S.C. § 1127.

KINDRED INTELLECTUAL PROP.

§ 9.06

Level of Invention

Patents and Copyrights

Patents: Novelty required, as is nonobviousness.

Copyrights: Only originality of authorship is required. 17 U.S.C. § 102(a). But only form of expression, not underlying idea is protected. *Id.* § 102(b). See § 9.03[4][f][i] *supra*.

Trade Secrets

Invention, novelty and prior art do not preclude trade secret status. See §§ 1.08[3]-[6] *supra*. Basic test: is matter claimed trade secret generally known or readily ascertainable in relevant trade or industry, in relevant territory. A trade secret must possess "at least that modicum of originality which will separate it from every-day knowledge." *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 623, 171 U.S.P.Q. 731 (7th Cir. 1971).

Trademarks

No requirement of novelty or nonobviousness. Trade-Mark Cases, *supra* ("The ordinary trademark has no necessary relation to invention or discovery . . . [it] is generally the growth of a considerable period of use . . . [and] often the result of accident, rather than design . . ." *Id.* at 94). Trademark must be sufficiently distinct from prior marks in area of use as not to cause likelihood of public confusion.

§ 9.06

TRADE SECRETS

9-380

Necessity of Disclosure of Invention

Patents and Copyrights

Patents: Required. Must enable practice and be best mode known to the inventor at the time of application. Patent Act § 112.

Copyrights: Statutory copyright no longer requires "publication with notice," the 1909 Act standard. The 1976 Act affords statutory protection to published and unpublished works: the test is fixation in tangible medium of expression. See 17 U.S.C. §§ 301(a), 401 (notice required only for published works; inadvertent omission can be cured. *id.* § 405 and notice is now optional due to U.S. adherence to Berne Union, § 9.03[6][b] *supra*). Although registration of the work by deposit is required as a prerequisite to securing important remedies—statutory damages and attorneys' fees, *id.* § 412—there are statutorily recognized exceptions to "full" registration, *id.* § 408(b), which by regulation, for example, permit filing only of "identifying material" for computer programs and data bases. See § 9.03[6] *supra*.

Trade Secrets

The trade secret owner's right is to disclose subject to restrictions on the discloser's use or disclosure. See § 1.01 *supra*.

Proper contractual and other precautions can result in wide distribution without loss of proprietary status. See, e.g., *Data General Corp. v. Digital Computer Controls, Inc.*, 357 A.2d 105 (Del. Ch. 1975), where distribution of 6,000 copies of a Maintenance Manual did not preclude trade secret relief against unauthorized use of the manual.

Trademarks

Necessity for public use—or *bona fide* intention to use—of trademark in sale of goods or rendering of services. Trademark must be associated with goods or services to qualify for protection. *Restatement of Torts* §§ 718, 719 (1938) (trademarks); Application of Universal Oil Prods., 476 F.2d 653 (C.C.P.A. 1973) (service marks).

9-381

KINDRED INTELLECTUAL PROP.

§ 9.06

Cost to Obtain

Patents and Copyrights

Patents: Relatively high: procuring patent for an electronic device in significant commercial jurisdictions estimated to cost (in 1993) \$25,000 to \$50,000.

Copyrights: Negligible cost and automatic extension to all countries adhering to Berne and Universal Copyright Conventions.

Trade Secrets

Relatively low, but difficult to measure economically: consider cost of intra-enterprise secrecy, employment agreements with post-employment restrictions, security plant maintenance, etc.

Trademarks

Relatively low, but difficult to measure economically. Courts and U.S. Patent and Trademark Office recognize validity of initial "token" trademark shipments made to establish basis for trademark registration where there is intent to continue use of mark. See *Fort Howard Paper Co. v. Kimberly-Clark Corp.*, 390 F.2d 1015 (C.C.P.A.), *cert. denied*, 393 U.S. 831 (1968); *DeMert & Dougherty, Inc. v. Chesebrough-Pond's Inc.*, 348 F. Supp. 1194 (N.D. Ill. 1972). Application fee for federal trademark registration \$175.00 (15 U.S.C. § 1113(a)(1)). Consider also cost of trademark development, trademark clearance, trademark protection, and related packaging and graphic design work.

§ 9.06

TRADE SECRETS

9-382

Date Protection Commences

Patents and Copyrights

Patents: Upon issuance of letters patent, typically 2 to 5 years after application: no statutory protection for pre-grant "infringement."

Copyrights: Upon "fixation" in tangible medium.

Trade Secrets

From date of first use in business lending competitive advantage: generally held to relate to R&D development onward. See § 1.02(1) *supra*.

Trademarks

Except for registration procured pursuant to *bona fide* intention to use, § 9.04(3)(h) *supra*, from date of first public use of trademark considered inherently distinctive (fanciful, arbitrary, or suggestive), see *Columbia Mill Co. v. Alcorn*, 150 U.S. 460 (1893); *Restatement of Torts* § 717, *comment f* (1939), or from date of achievement of secondary meaning through public use of non-inherently distinctive trademark. *Carter-Wallace, Inc. v. Procter & Gamble Co.*, 434 F.2d 794 (9th Cir. 1970); *Restatement of Torts* § 717, *comment f, supra*.

9-383

KINDERED INTELLECTUAL PROP.

§ 9.06

§ 9.06

TRADE SECRETS

9-384

9-385

KINDERED INTELLECTUAL PROP.

§ 9.06

Territoriality

Patents and Copyrights

Patents: U.S. patent is limited to U.S. territory. *DeepSouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S. Ct. 1700 (1972).

Copyrights: By convention, such as the Berne Union or Universal Copyright Convention, publication in member state secures "national treatment" in signatory states.

Trade Secrets

Trade secret developed in U.S. is *de facto* entitled to virtually worldwide protection as against contractual and confidential disclosures and others standing in a special relation to developer. Technically, this broad territorial protection can be attributed to the Paris Convention, but practically it obtains due to virtually universal respect for contractual and like obligations.

Trademarks

Trademark registered under Lanham Act (15 U.S.C. §§ 1051-1127) generally has superior rights throughout the United States. See 15 U.S.C. §§ 1057(b), 1072, 1115; *In re Beatrice Foods Co.*, 429 F.2d 467 (C.C.P.A. 1970); *John R. Thompson Co. v. Holloway*, 366 F.2d 108 (5th Cir. 1966). Federal registrant cannot enjoin local junior trademark user, however, until likelihood of federal registrant's expansion into junior user's market area shown. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959); *Scientific Applications v. Energy Conservation Corp.*, 436 F. Supp. 354 (N.D. Ga. 1977). Federal registrant's nationwide superior rights further circumscribed by limited area defense set out in § 33(b) of Lanham Act. See 15 U.S.C. § 1115(b)(5).

Patents and Copyrights

Trade Secrets

Trademarks

Burger King, Inc. v. Hoots, supra. State common-law trademarks generally protected in the market areas where used, known by the public, or which are in trademark owner's zone of natural expansion. See *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916); *United Drug Co. v. Rectanus Co., supra.* In absence of a federal registration covering the mark, state registration may give registrant rights over an entire state, even though the mark is used only in one part of state. See *Yunker v. Nationwide Mut. Ins. Co.*, 191 N.E.2d 145 (Ohio 1963).

Date Protection Ceases

Patents and Copyrights

Patents: Upon earlier of patent expiration or first judicial declaration of invalidity under *Blonder Tongue Labs., Inc. v. Univ. of Ill.*, 402 U.S. 313, 91 S. Ct. 1434, 28 L. Ed. 2d 788, 169 U.S.P.Q. 513 (1971). Thus, maximum: 17 years. And, even if the patent has not expired or been declared *invalid*, it may nonetheless be unenforceable against third parties if it has been misused. As to the history, and current insights into the meaning, of the development of misuse principles, see *Dawson Chem. Co. v. Rohm & Hass Co.*, 445 U.S. 948, 100 S. Ct. 1595, 63 L. Ed. 2d 783 (1980) and see § 10.01[4][a] *infra*.

Copyrights: Assuming compliance with notice and registration provisions, duration is very long; typically, for individual authors, life plus 50 years, 17 U.S.C. § 302(a), and for "corporate created" works, 75 to 100 years. *Id.* § 302(c). See § 9.03[5][c] *supra*.

Trade Secrets

Trade secret owner must maintain information in secret, and employ reasonable safeguards designed to do so. Protection ceases upon unprotected disclosure, such as sale of readily reverse-engineered product, § 1.05 *supra*, or subject of trade secret becoming generally known, such as by patent issuance disclosing the trade secret. § 1.06[1] *supra*. Certain products may not reveal trade secrets. See § 1.05[3] *supra*. Duration of protection is indeterminate, but may be perpetual, see e.g., *Shepard v. Comm'r*, 173 U.S.P.Q. 34, 42-43 (Tax Ct. 1972), and by contract, royalty entitlements may extend beyond life of secrecy. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S. Ct. 1096, 59 L. Ed. 2d 296, 201 U.S.P.Q. 1 (1979).

Trademarks

Trademark protection at common law theoretically perpetual assuming proper continued public use and nonabandonment and compliance with periodic federal filing requirements. See § 9.04[5] *supra*. Several conditions can result in loss of trademark rights: abandonment through nonuse of mark (nonuse of mark coupled with intention of trademark owner to relinquish trademark rights). See, e.g., *Saxlehner v. Eisner & Mendelson Co.*, 179 U.S. 19 (1900). Intention to relinquish trademark rights can be express or implied from circumstances. Under Lanham Act, nonuse of mark for two consecutive years deemed *prima facie* abandonment. 15 U.S.C. § 1127. As to abandonment through failure to prosecute trademark infringers, see *Winget Kickernick Co. v. La Mode Garment Co.*, 42 F.2d 513 (N.D. Ill. 1930) but compare *United States Jaycees v. San Francisco Jr. Cham. of Com.*, 354 F. Supp. 61 (N.D. Cal. 1972), *aff'd per curiam*, 513 F.2d 1226 (9th Cir. 1975) (failure to prosecute trademark infringers other than defendant irrelevant to trademark infringement action).

§ 9.06

TRADE SECRETS

9-386

Patents and Copyrights

Trade Secrets

Trademarks

Loss can occur if there is a substantial change in nature or type of goods sold under mark, see, e.g., *PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 163 U.S.P.Q. 193 (8th Cir. 1969) (change from cola to pepper type beverage) and from substantial change in trademark format, see, e.g., 15 U.S.C. § 1057(d); *Unitec Indus., Inc. v. Cumberland Corp.*, 176 U.S.P.Q. 62 (T.T.A.B. 1972). Other situations which can result in an abandonment of trademark rights: licensing of mark without adequate control by trademark owner over quality of the goods sold under mark; assignment of mark without associated good will ("assignment in gross"); and trademark becoming generic name for its product or service. See generally, 1 J. McCarthy, *Trademarks and Unfair Competition* §§ 17:1-17:10 (2d ed. 1984); 1 J. Gilson, *Trademark Protection and Practice*, §§ 3.06, 3.07 (1974).

9-387

KINDRED INTELLECTUAL PROP.

§ 9.06

Rights Against Independent Discoverer

Patents and Copyrights

Patents: Statutory exclusivity affords complete protection against subsequent independent discoverer as against any other infringer and thus prohibits slavish duplication and substantial equivalent of invention.

Copyrights: Copying is required element of infringement, but if defendant's access to plaintiff's work can be shown, proof of copying may be established circumstantially. See generally A. Latman, *Copyright Law* 160-168 (5th ed. 1979).

Trade Secrets

None. Trade secret law encourages independent development and therefore anyone can develop same or equivalent matter so long as he does not do so in breach of contractual or other duty not to use. § 5.04[1] *supra*.

Trademarks

Independent discovery not an available defense at common law except in limited situations where mark adopted by junior user in good faith without knowledge of senior user's mark (in markets where senior user's mark not used or known by the public, and not in senior user's zone of natural expansion). Where federal registrations involved, junior user who adopted mark before date of senior user's registration and without knowledge of senior user's prior use entitled to use mark in its trade territory as constituted at date of senior user's registration where junior user's use continuous.

Patents and Copyrights

Trade Secrets

Trademarks

Good faith independent discovery of mark by junior user (absence of wrongful intent to infringe) may influence award and amount of defendant's profits and damages and scope of injunctive relief granted. See, e.g., *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 67 S. Ct. 1136, 91 L. Ed. 1386 (1947) (accounting of profits); *Kentucky Fried Chicken v. Diversified Packaging*, 549 F.2d 368, 193 U.S.P.Q. 649 (5th Cir. 1977) (scope of injunctive relief); *Armstrong Cork Co. v. Armstrong Plastic Covers Co.*, 434 F. Supp. 860 (E.D. Miss. 1977) (scope of injunctive relief).

Civil Remedies Available

Patents and Copyrights

Patents: Damages (which shall not be less than a reasonable royalty) and/or injunctive relief. Attorneys' fees recoverable in exceptional case. See § 9.02[10][e] *supra*. Preliminary injunctions not often granted. § 9.02[10][a] *supra*.

Copyrights: In addition to damages, there are statutory (i.e., not proven) damages up to \$100,000, 17 U.S.C. § 504(c), and discretionary attorneys' fees, *id.* § 505. See § 9.03[11][f].

Seizure, impounding and destruction are readily available, see *id.* § 503 and Fed. R. Civ. P. 64. Generally see § 9.03[11] *supra*.

Trade Secrets

Damages (which sometimes are framed as reasonable royalty), punitive damages and/or injunctive relief (which may be permanent although direction of law appears to be toward narrower injunctions). See *Telex Corp. v. IBM*, 367 F. Supp. 258, 313-328, 357-361, 179 U.S.P.Q. 777 (N.D. Okla. 1973), *aff'd as to trade secret aspects*, 510 F.2d 894, 184 U.S.P.Q. 521 (10th Cir.), *cert. dismissed*, 423 U.S. 802 (1975) (\$22,000,000 in trade secret damages plus extensive injunctive relief); *Tri-Tron Int'l v. Vello*, 525 F.2d 432, 436-437 (9th Cir. 1975) (plaintiff's lost profits and defendant's gains both pertinent to assess damages); *Data General Corp. v. Digital Computer Controls, Inc.*, 357 A.2d 105

Trademarks

Under Lanham Act (15 U.S.C. §§ 1051-1127), trademark owner entitled to recover "subject to the principles of equity" (1) defendant's profits, (2) any damages sustained by plaintiff, and (3) costs of the action. Judicial discretion to award treble actual damages and to enter judgment appropriate to circumstances of case upon finding recovery based upon profits inadequate or excessive, 15 U.S.C. § 1117. Punitive damages, however, cannot be awarded under Lanham Act, *Caesars World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269 (3d Cir. 1975), but court in "exceptional cases" may award "reasonable attorney fees" to the prevailing party, 15 U.S.C. § 1117.

Patents and Copyrights

Preliminary injunction routinely granted.

Trade Secrets

(Del. Ch. 1975) (permanent injunction against manufacture of minicomputer where defendant misappropriated data from manual, distributed with plaintiff's minicomputer). Attorneys' fees can be awarded to prevailing party if provided for by statute. See UTSA § 4, at § 1.01[2][b] *supra*. Caveat: Absent a statutory basis for attorneys' fees, federal policy does not favor award to either plaintiff or defendant in trade secret case. *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 171 U.S.P.Q. 731, 735-736 (7th Cir. 1971) (plaintiff); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Co.*, 407 F.2d 288, 298 (9th Cir. 1969) (defendant).

Trademarks

Trademark owner entitled under Lanham Act to injunctive relief to prevent violation of its rights and court authorized to include provisions in injunction (a) directing defendant to file with court report stating its manner of compliance with injunction terms, and (b) requiring delivery of infringing articles to court for destruction, 15 U.S.C. §§ 1116, 1118. The Lanham Act further provides for cancellation of federal trademark registrations under appropriate circumstances, see 15 U.S.C. §§ 1064, 1065, 1119, and for award of damages to party injured by consequence of a falsely or fraudulently procured federal trademark registration, 15 U.S.C. § 1120.

Patents and Copyrights

Trade Secrets

Seizure and impoundment are governed by state remedies, even in federal diversity actions. See Fed. R. Civ. P. 64.

Preliminary injunction commonly granted. See § 14.01 *supra*.

Trademarks

Preliminary injunctions are often granted.

State trademark statutes vary in civil relief available upon infringement. Under Model State Trademark Bill, the owner of a state-registered mark may obtain injunctive relief against infringement and, under appropriate circumstances, delivery of infringing articles to either court or himself for destruction. Recovery of plaintiff's damages and defendant's profits from infringement also available. Model Bill further provides for award of damages to party injured by a falsely or fraudulently procured state trademark registration and for cancellation of state trademark registration under appropriate circumstances. See Model State Trademark Bill §§ 8, 10, 11, 13, contained in United States Trademark Association, *State Trademark Statutes, supra*.

Patents and Copyrights

Trade Secrets

Trademarks

See, e.g., N.Y. Gen. Bus., §§ 368-368-e (McKinney 1968) (adopting Model Bill in substance). Model Bill gives remedies for dilution of distinctive quality of state registered or common law mark (notwithstanding absence of likelihood of confusion or party competition). Model State Trademark Bill § 12. Dilution provision adopted in many states, see, e.g., N.Y. Gen. Bus., § 368-d (McKinney 1968), but most courts decline application of dilution statute in absence of likelihood of confusion. See, e.g., *Alberto-Culver Co. v. Andrea Dumon, Inc.*, 466 F.2d 705 (7th Cir. 1972) (no recognition given Illinois dilution statute in absence of finding of likelihood of confusion). But compare *Polaroid Corp. v. Polaroid, Inc.*, 319 F.2d 830 (7th Cir. 1963) (recognizing that Illinois dilution statute may apply in absence of finding of likelihood of confusion). See *Allied Maintenance v. Allied Mechanical*, 42 N.Y. 2d 538, 399 N.Y.S.2d 628 (N.Y. 1977), recognizing validity of New York antidilution statute.

Patents and Copyrights

Trade Secrets

Trademarks

The application of *Allied Maintenance* has generated confusion in the New York federal courts. Compare *Dallas Cowboys Cheerleaders Inc. v. Pussy Cat Cinema Ltd.*, 604 F.2d 200, 203 U.S.P.Q. 161 (2d Cir. 1979) (adopting *Allied Maintenance* conclusion that New York dilution statute can apply in absence of finding of likelihood of confusion) with *Mushroom Makers, Inc. v. R.G. Barry Corp.*, 580 F.2d 44 (2d Cir. 1978) (characterizing *Allied Maintenance* interpretation of New York dilution statute as *dictum*).

Under state common law, injunctive relief is available for trademark infringement, as are defendant's profits and/or the trademark owner's actual damages. See generally, 2 J. McCarthy, *Trademarks and Unfair Competition* §§ 30:1-30:31 (2d ed. 1984); 1 J. Gilson, *Trademark: Protection and Practice*, *supra*, §§ 8.07-8.08.

§ 9.06

TRADE SECRETS

9-392.2

Patents and Copyrights

Trade Secrets

Trademarks

Punitive damages and costs available in many state jurisdictions. see, e.g., *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 408 F. Supp. 1219, 189 U.S.P.Q. 17 (D. Colo. 1976), *modified*, 561 F.2d 1365 (10th Cir. 1977), *cert. dismissed*, 434 U.S. 1052 (1978) (\$16.8 million punitive damage award under Colorado law reduced to approximately \$4.0 million), but attorneys' fees generally not available. See *Textron, Inc. v. Spi-Dell Watch & Jewelry Co.*, 406 F.2d 544 (2d Cir. 1968) (applying New York law; attorneys' fees unavailable in trademark infringement action); *Winthrop Chem. Co. v. Blackman*, 159 Misc. 451, 288 N.Y. Supp. 389 (N.Y. Sup. Ct. 1936) (attorneys' fees unavailable in trademark infringement action).

9-392.3

KINDRED INTELLECTUAL PROP.

§ 9.06

Criminal Sanctions

Patents and Copyrights

Patents: Not available: civil action is remedy for infringement. Patent Act § 281.

Copyrights: Available, 17 U.S.C. § 506, and frequently applied, particularly for record and tape and film "piracy."

Trade Secrets

Approximately 35 states have trade secret theft statutes.

In camera and sealed record protection available in criminal proceeding despite constitutional public trial requirement. *Stamcarbon, N.V. v. American Cyanamid Co.*, 506 F.2d 532 (2d Cir. 1974).

Trademarks

Unavailable under Lanham Act. Provisions of statutes such as Federal Alcohol Administration Act (27 U.S.C. §§ 201-212) and Federal Food, Drug and Cosmetic Act (21 U.S.C. §§ 301-392) directed against trademark misbranding but not considered trademark statutes. Many states have enacted criminal laws concerned with the counterfeiting of marks and labels and the sale of spurious goods. See generally, Harrison, "Penal Actions for Trademark Infringement A Survey of Statutes and Cases," 57 T.M.R. 285 (1967) (table of state criminal laws relating to trademarks). See, e.g., N.Y. Gen. Bus., §§ 279-j to 279-q (McKinney 1968) (New York criminal provisions relating to trademarks).

(Text continued on page 9-393)

Appendix C

Summary of Pertinent SBC Software Provisions

Packet #/Document #/ Date		Scope of Grant/Negation of Patent	Confidentiality Agreements	Other
SWBT Agreements				
(1)	Packet #1 Document #1 July 18, 1990	P. 13, Clause 18 Buyer can use software only on provided Hardware. Allowed to copy internally, cannot distribute to others P. 17 Clause 23 No licenses under any Patent are granted to buyer	P. 14, Clause 18 Cannot disassemble to gain source code. SWBT shall take all steps to keep software confidential from third parties	P. 17, Clause 22 All assignments, subcontracting and transfers are forbidden without written consent
(2)	Packet #1 Document #2 April 24, 1985	P.4 Clause 13 No licenses under any Patent are granted to buyer		P. 9, Clause 29 Assignment of any rights or obligation are only allowed to Affiliates and Subsidiary without written consent
(3)	Packet #1 Document #3 June 3, 1992	P. 7, Para. 4 All materials are restricted to being solely for internal business use and cannot be sold, transferred, or leased without consent	P. 38, Para. 4 All software cannot be reproduced and is to be confidential and treated as proprietary information. All information can only be released to employees on a need-to-know basis	

Packet #/Document #/ Date		Scope of Grant/Negation of Patent	Confidentiality Agreements	Other
		P. 14, Para. 6, 7 Documentation can only be used internally or by authorized installer P. 40, Para. 1 Software must be used with provided Hardware	P. 40, Para. 3 Must use reasonable care to protect all software as internal proprietary information	
(4)	Packet #2 Document #1 November 22, 1996	P. 6, Para. 6 No licenses under any Patent are granted to buyer	P. 1, Para. 2 Agreement for 2 years to restrict information to only those directly involved in the project	
(5)	Packet #2 Document #2 December 2, 1986	P. 2, Para. 8 No licenses under any Patent are granted to buyer	P. 1, Para. 3 Agreement to protect all information gained as internal proprietary information	
(6)	Packet #2 Document #3 November 22, 1996	P. 2, Para. 6 No licenses under any Patent are granted to buyer	P. 1, Para. 2 Agreement for 2 years to restrict information to only those directly involved in the project	
(7)	Packet #2 Document #4 September 31, 1994	P. 4-5, Para. 1 Software can only be used in DMS-100 offices	P. 12, Section IX, (b) Terms and conditions of the contract are to be held in confidence	
	Amendment 1	P. 3, Sec. 3 Same Clause		

Packet #/Document #/ Date		Scope of Grant/Negation of Patent	Confidentiality Agreements	Other
	Amendment 2	P.3, Sec. 3 Same Clause		
(8)	Packet #2 Document #5 January 7, 1997		P. 2, Para. 5 Agreement for three years to restrict information to only employees who need to know P. 3, Para. 7(e) If pursuant to government order, confidentiality agreement can be breached	
(9)	Packet #3 Document #1 September 7, 1993	P. 36, Clause 54 Software an be used anywhere; five copies per office P. 18, Clause 29 No license under any Patent are granted unless in writing	P. 9, Para. 4 Buyer can release technical information only with sellers consent P. 10, Para. 4 Buyer can release documentation for engineering and installation P. 37, Para. 4 Buyer shall not disclose software beyond employees on a need-to-know basis	P. 5, Clause 6 All assignments, subcontracting and transfers are forbidden without written consent

Packet #/Document #/ Date		Scope of Grant/Negation of Patent	Confidentiality Agreements	Other
			P. 45, Clause 15 Nondisclosure of all confidential or proprietary information for 3 years beyond termination of the contract	
(10)	Packet #4 Document #1 September 19, 1994	P. 19, Para. 2 Software can only be used on Hardware with which it was delivered P. 10, Para. 3 No licenses under any Patent are granted to buyer	P. 11, Para. 3 Documentation can be copied solely for internal use	P. 3, Para. 2 All assignments, subcontracting and transfers are forbidden without written consent
(11)	Packet #4 Document #2 July 2, 1996	P. 19, Clause 39 Software can only be used on designated processor P. 32, Clause 70 No licenses under any Patent are granted to buyer	P. 19, Clause 39 Buyer shall hold all software in confidence and agrees to treat it as its own confidential information P. 35, Clause 85 Confidentiality clause forbidding dissemination of information obtained through the contract	P. 28, Clause 56 All assignments, subcontracting and transfers are forbidden without written consent

Packet #/Document #/ Date	Scope of Grant/Negation of Patent	Confidentiality Agreements	Other
(12) Packet #5 Document #1 Addendum 1 July 26, 1995	P. 1, Para. 4 Can only be used by contracting parties, no access to third parties	P. 1, Para. 4 Full non-disclosure to third parties of all information	
Addendum 2 July 31, 1996	P. 1, Para. 4 Same as above	P. 1, Para. 4 Same as above	
Addendum 3 December 23, 1996	P. 3, Para. 5 Same as above	P. 3, Para. 5 Same as above	
	P. 4, Para. 5 Use is site specific	P. 4, Para. 8 Same as above	
Corporate Master December 31, 1996	P. 5, Para. 5 Product can only be used internally, no use by third parties is allowed P. 5, Para. 9 License is for single User system only	P. 4, Para. 8 Same as above P. 9, Para. 18 All copies except for archival purposes are forbidden	P. 10, Para. 20 All assignments without consent are forbidden
(13) Packet #6 Document #1 Amendment 5 October 6, 1994		P. 1. Reverse engineering and decompilation are forbidden P. 2. Full confidentiality for all intellectual property items released. Same thing restated in attached customer handbook #29-36	In attached customer handbook, P. 30 No assignments without consent of other party

Packet #/Document #/ Date	Scope of Grant/Negation of Patent	Confidentiality Agreements	Other
Original agreement November 30, 1984	P. 1, Sec. 1 License is only for use on either specific site or computer P. 10, Sec. 26 No licenses under any Patent are granted to buyer		
Non-Disclosure Agreement			Agreement is for search for computer bugs, all information must be kept confidential
(14) Packet #6 Document #2 Amendment 4 December 5, 1996	P. 1, Para. 3.3 Products installed on mainframe can be used only at Southwest Bell centers P. 2, Para. 3.6 Access is limited to employees and contractors	P. 3, Para. 4 No reverse engineering or disassembly is allowed	
Amendment 3 April 26, 1994	P. 1, Para. 1 Can allow contractors or consultants to use computers		
Amendment 2 April 20, 1994	P. 2, Para. 4 Limited to specified computer	P. 4, Para. 9 No reverse engineering or disassembly is allowed	

Packet #/Document #/ Date	Scope of Grant/Negation of Patent	Confidentiality Agreements	Other
Master Agreement January 24, 1986	P. 5, Sec. 7 Full nondisclosure of all obtained proprietary information		P. 15, Sec. 30 No assignments without covenant P. 10 Allowed to license others to use
Master License November 21, 1986	P. 2, Para. 3 (A) (D) Site specific Use only by employees	P. 2, Para. 7 Customer agrees to no reverse engineering or release of information	P. 1, Para. 3.(D) All assignments, subcontracting and transfers are forbidden without written consent
(15) Packet #6 Document #3 Sample agreement	Section C, Pg. 1 No limits on use Attachment A, p. 3 No licenses under any Patent are granted to buyer		Attachment A, P. 1 All assignments, subcontracting and transfers are forbidden without written consent
(16) Packet #7 Document #1 Amendment 5 May 31, 1996	P. 1, Para. 4 Limited users - 65,000 in U.S. and 1,200 abroad, otherwise extra fees P. 2, Para. 3 Can allow use by agents but only for customers' internal use		
Amendment No. 5	P. 2, Para. 6 No licenses under any Patent are granted to buyer		